Why Indian investors await a market correction

Speaking at Hubbis' Indian Wealth Management Forum 2017 in August – Aashish Somaiyaa of Motilal Oswal Asset Management Company wonders if market views define holdings or holdings define views.

What Aashish Somaiyaa says he has gathered from social media is that the NSE NIFTY 50 Index rally has been widely hated.

This is mainly because, since it reached 7,500, a lot of practitioners have been calling for a correction.

For the last two years, the consensus has been that it's a liquidity-driven rally – with valuations too high.

The implications, explains Somaiyaa, managing director and chief executive officer of Motilal Oswal Asset Management Company, are that most investment advisers have clients waiting for a correction before they invest.

And the consequence of that, according to estimates, is that equity-oriented schemes now have at least INR750 billion to INR800 billion worth of funds in non-equities.

More and more money has flowed to balanced and dynamic funds, resulting in massive under-performance for some investors.

As regards the view that valuations are too high, Somaiyaa argues that every time the trailing PE ratio becomes 24x, it doesn't mean there will be a correction in the markets.

Indeed, he says that it is important to define the 'market' when someone calls it expensive.

Making generalised statements that a market is too expensive doesn't help nobody's cause, he adds.

Whole Somaiyaa is not suggesting that investors should buy expensive, he wants them to be more discerning and not to ignore the fact that PEs are also paid for higher growth, and the length of the growth. ■

AASHISH SOMAIYAA
Motilal Oswal Asset Management

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